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Subject: Social Collapse - ECB's Nowotny (Austria) Says Mistaken 1930s Austerity Helped Nazi Rise

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*NOWOTNY SAYS BANKING UNION MOST IMPORTANT EU ISSUE FOR A WHILE *NOWOTNY SAYS CRUCIAL TO KEEP REMEMBERING LESSONS OF 1930 CRISIS *NOWOTNY SAYS MELTDOWN WAS AVOIDED BY MASSIVE C.BANK ACTION *NOWOTNY SAYS WE HAVE BEEN `VERY CLOSE TO MELTDOWN'

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ECB's Nowotny Says Mistaken 1930s Austerity Helped Nazi Rise (1)
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(Adds comments from former German chancellor in fourth paragraph. For more on Europe's crisis, click on TOP CRIS.)

By Boris Groendahl
June 18 (Bloomberg) -- European Central Bank Governing Council member Ewald Nowotny said policy makers must avoid repeating a "single-minded" focus on austerity that helped bring the Nazis into power in the 1930s German economic crisis.
"Due to misleading theories, a single-minded concentration on austerity policy led to mass unemployment, a breakdown of democratic systems and in the end to the catastrophe of Nazism," the Austrian central bank governor said in Vienna today. "We must avoid the mistakes of the 1930s," he said.
"We really have to be aware that this is an underlying theme."
The Nazi Party doubled its vote in the 1932 election after two years of austerity policies under Chancellor Heinrich Bruening. Bruening had raised taxes, cut welfare benefits and encouraged wage cuts, largely bypassing the parliament with the help of presidential decrees, to increase exports and help Germany meet reparation payments to the victors of World War I.
Former German Chancellor Helmut Schmidt said late last year that he was worried about Germany's push for strict budget discipline across the euro area. He likened the policy to "disastrous" austerity measures applied by Bruening in the closing years of the Weimar Republic.

Great Depression

France's anti-immigrant National Front party, which calls for the country's exit from the euro, won two seats in parliamentary elections yesterday, its first such victory in 15 years. Greece's anti-immigrant Golden Dawn party won 6.9 percent of the vote in Greek elections yesterday, gaining 18 seats in the parliament in Athens.
Nowotny said the determination to avoid the economic mistakes of the 1930s was present in discussions among central bankers when the financial crisis erupted. He said the fact that Federal Reserve Chairman Ben S. Bernanke was a researcher of the Great Depression was an important driver of global central banks' reaction at the start of the crisis.
"This enabled him perhaps to have a very close feeling, perhaps a better feeling than many of us, for the dangers that were arising," Nowotny said about Bernanke. "We have to be aware we have been very close to meltdown and it was only due to massive efforts of the central banks to avoid such a

catastrophic development" that it's been prevented.
Speaking during a panel discussion, Nowotny said that the euro is working as a currency and will continue to work. "The euro as such is fully functioning, and I'm sure it will function for an indefinite and long period," he said.
Steps toward a European banking union will be the most important issue for the European Union "for the foreseeable future," he said.

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